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The 1936 budget

London

1936

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THE 1936 BUDGET

*A Prospective Deficit—Enormous Additions
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New Taxation Necessary
Additions to Income Tax and Tea Duties—
Conscription of Life and Wealth—
Mr Churchill on Germany—National Debt—
No Provision for Sinking Fund.*

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THE 1936 BUDGET

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ON April 21st, 1936, when Mr Neville Chamberlain made his fifth Financial Statement as Chancellor of the Exchequer it was generally supposed that he would frame a standstill budget. The panicky anxieties about the state of our armaments, and particularly of the Air Force, which had been spread about the country by Mr Winston Churchill and by responsible Ministers of the Crown (who had declared over and over again in the last few months that the National Government had "let down" national defence to a dangerous state of inadequacy or inefficiency) had been followed by enormously high estimates and by a White Paper which indicated a vast additional capital expenditure on rearmament. On the other hand, the large growth of revenue in the year 1935-6 had been sufficient to cover the big supplementary estimates and to preserve the small balance for which the Chancellor had budgeted a year previously. It was argued by the experts that further increments of revenue might be expected, which would be sufficient to cover the increased estimates, and that the White Paper projects of rearmament could be covered quite cheaply and easily as the year advanced by short-term borrowings, to be incorporated later on in a popular National Defence Loan, and added to the National Debt. This view was so prevalent that a listless House of Commons assembled to hear what was expected to be a quite dull and uninteresting budget. The Great Expectations of two years ago had vanished.

Let us consider first the results of the last budget year

ending on March 31st, 1936. The main figures are shown at a glance in the following table :—

		Revenue £ millions	Expenditure £ millions	Surplus £ millions
Estimates	.. ..	734.5	734.0	0.5
Actual	.. ..	752.9	750.0	2.9
Excess over Estimates		18.4	16.0	2.4

Thus an increase of £18½ millions in the revenue compared with the estimates was nearly all swallowed up by a similar increase in expenditure. Assuming taxation to remain unaltered, Mr Chamberlain estimated that the revenue for 1936-37 would further increase to £776.6 millions, or nearly £24 millions more than the receipts for the preceding year and £42 millions more than the estimates of his 1935 Budget. Hence, if there had been economy or if the growth of expenditure had been merely arrested, it would have been easy to take sixpence or even a shilling off the income tax, so reducing it to 4/- or 3/6 in the pound.

Instead of this, however, last year's expenditure exceeded the estimates by £16 millions, and Mr Chamberlain has agreed to a further increase of nearly £48 millions in the coming year, making a total increase of £64 millions in the estimates for 1936-37 on those of the previous year. Thus the Budget disclosed a prospective deficit of over £21 millions. To meet this, the Chancellor raided the Road Fund of its balance of £5¼ millions, and imposed a net increase of taxation amounting to £16½ millions this year, and over £20 millions in a full year, so that on balance he looks forward to a tiny prospective surplus of £484,000.

The principal items of the national accounts for 1936-37, compared with the previous year, are as follows :—

REVENUE

		1935-36 Estimates £ millions	1935-36 Receipts £ millions	1936-37 Estimates £ millions
Inland Revenue :				
Income Tax	.. ..	232.5	238.1	259.0
Surtax	.. ..	51.5	51.0	56.5
Death Duties	.. ..	80.0	87.9	89.0
Other	.. ..	27.5	27.9	28.5
		391.5	404.9	433.0
Customs and Excise :				
Customs	.. ..	188.6	196.6	207.5
Excise	.. ..	106.3	106.7	110.0
		294.9	303.3	317.5
Motor Duties (Exchequer Share)				
	.. ..	5.0	5.0	5.0
Total from Taxes	.. ..	691.4	713.2	755.5
Miscellaneous	.. ..	43.1	39.7	42.9
Total Ordinary Revenue		734.5	752.9	798.4
Post Office	.. ..	64.1	66.1	69.3
Road Fund	.. ..	26.2	25.8	26.5
Total	.. ..	824.8	844.8	894.2

It will be noticed that a Conservative Chancellor of the Exchequer is proposing to take in this Budget over 40 millions more from those who pay income tax, surtax, and death duties than he proposed to take last year; and there is now no prospect whatever of relief unless a powerful movement for economy in the public services is initiated.

THE 1936 BUDGET

EXPENDITURE

	1935-36 Estimates £ millions	1935-36 Payments £ millions	1936-37 Estimates £ millions
Consolidated Fund :			
National Debt interest, etc.	224.0	211.5	224.0
Other	11.6	14.0	11.3
	<u>235.6</u>	<u>225.5</u>	<u>235.3</u>
Supply Services :			
Army	43.5	44.6	49.3
Navy	60.0	64.8	69.9
Air	20.7	27.5	39.0
Civil Services ..	353.0	361.9	365.3
Customs and Inland Revenue ..	13.2	13.2	13.5
Margin for Supple- mentaries ..	8.0	—	25.6
	<u>498.4</u>	<u>512.0</u>	<u>562.6</u>
New Sinking Fund ..	—	12.5	—
Total Ordinary Expen- diture	<u>734.0</u>	<u>750.0</u>	<u>797.9</u>
Post Office	64.1	66.0	69.3
Road Fund	26.2	25.8	26.5
	<u>90.3</u>	<u>91.8</u>	<u>95.8</u>
<i>Total</i>	<u>824.3</u>	<u>841.8</u>	<u>893.7</u>

It will be noticed that there are all round increases both in revenue and expenditure. The expansion of revenue, said Mr Maxton, "reveals what is to me an altogether unpleasant healthiness about the capitalist system;" but as Mr Churchill observed, the yield of surtax, despite an increase of 10 per cent. in the scale, has fallen from £56 millions in 1928-29 to £51 millions in 1935-36. The produce of each penny in the normal rate of income-tax was £4,908,000 in 1928-29; £4,577,000 in 1931-32; and £4,409,000 in 1935-36. That is sufficiently ominous.

THE 1936 BUDGET

On the expenditure side, the growth of armaments accounts for by far the larger part; but nearly every branch of expenditure shows an increase. More is being spent on subsidies; more on social services; more on administration. The pruning knife of the Treasury has been blunted by disuse. The spirit of economy seems to have evaporated. The new House of Commons criticises anything except expenditure. The Labour Party, which loses no opportunity of pressing for more doles and subsidies, complains bitterly of all taxation to which the majority of electors are to contribute.

TAXATION FOR ARMAMENTS

The first of the changes in taxation mentioned by the Chancellor were the provisions to prevent evasions of income tax and surtax. "Of course," he said, "it is very natural that the higher you raise a tax the greater is the inducement to avoid it if you can." The measures for dealing with property transferred abroad, one-man companies, and so-called "educational trusts," are estimated to yield £3,000,000 this year and £6,500,000 in a full year. To this was added an increase of 3d. in the pound on the income tax, yielding £12,000,000 this year and £14,000,000 in a full year.

The majority of income taxpayers will feel little or no increase of burden, however; so this change will have no appreciable effect from an electoral point of view. For the Chancellor increased by £10 each the allowance for married persons and for children, and he estimates that 1,100,000 out of 1,400,000 married taxpayers will pay less tax in consequence. Many who have hitherto paid something will now escape income tax altogether. It is curious that a Conservative Chancellor should couple an increase in the standard rate with an increase of exemptions—one can imagine the indignation of his party if these two things had been done at the same time by a Socialist Government.

The Budget also increased the tea duties by 2d. per lb.,

which will produce an extra £3,500,000 this year and £3,700,000 in a full year; the duty on foreign beer was increased by £1 per barrel; and the key industry duties were continued for another ten years.

"If," said Mr Chamberlain, "we had been able to keep the Estimates for the Defence Services at their previous level, we should have had to-day available a large sum of money for the relief of taxation:—

"I had hoped, and until quite recently I had good reason to hope, that in this fifth Budget it might have been possible for me to reward the taxpayer for his long and patient endurance of his burdens by giving him a greater relief than anything which up to now I have been able to afford. That that hope has had to be deferred and that instead I have had to ask of him new sacrifices, moderate though they may be, has been to me a bitter disappointment as well as to the country. No man hesitates to set his fire-fighting appliances in readiness when already he can feel the heat of the flames on his face. Our safety is more to us than our comfort."

But why this sudden panic? Did Mr Chamberlain swallow the absurd figures of Mr Churchill, and use them to justify a gigantic outlay on all classes of armaments without any accurate measurement of the danger?

Sir Archibald Sinclair said:—"The Chancellor of the Exchequer described his Budget of three years ago as a Budget of great expectations, but this is a Budget of shattered hopes." In reply to the Chancellor's platitude that safety is more important than comfort, Sir Archibald recalled General Goering's recent statement that "butter makes you fat, but guns make you strong." The sentiment is the same. Sir Archibald added:—

"The Chancellor of the Exchequer said that he felt the heat of the flames in his face and that he had to set his fire-fighting appliances in readiness. On what fuel are those flames burning? Tanks guns, battleships and aeroplanes. What are the Chancellor's fire-fighting appliances? Tanks, guns, battleships and aeroplanes. He is preparing to fight the flames with the fuel."

During the Budget debates, general concern was expressed at the increases of taxation. A Conservative Member, Mr M. Beaumont, said:—"I have enough

Liberal left in me to agree with Mr Gladstone that money is best left to fructify in the pockets of the people." Only the Socialists object to this principle, and seek to draw more and more money out of the pockets of wealthy people to defray the ever-expanding schemes of a State Bureaucracy. Thus Dr. Dalton, who held office in the last Labour Government, told the House of Commons on April 22nd, 1936, that instead of adding 3d.—"which will almost certainly become 6d. next year"—to the income tax and 2d. to the tea duty, the Chancellor "should rather have made additional provision by scaling up the rates both of Surtax and Estate Duties." He went on to make the suggestion that the Surtax limit should be reduced from £2,000 to £1,500 a year, which he estimated would bring an additional £70,000,000 a year under the scope of Surtax.

SIR A. SINCLAIR'S INDICTMENT

By far the most effective criticism of the Budget from the standpoint of economy was made by Sir Archibald Sinclair, the leader of the independent Liberals, in his speech in the House of Commons on April 22nd. He recalled Mr Chamberlain's statement that in 1931 we were spending, including the sums borrowed for unemployment and the roads, at the rate of £785,000,000 a year; the comparative figure for 1933 was £697,000,000 and the estimates for the coming year amounted to £798,000,000, an increase of £100,000,000 in three years, which restored our expenditure to the crisis level of 1931. Mr Chamberlain was "like a man lost in some financial Sahara, wandering round in a circle and returning, in expenditure and taxation, to the point from which he started."

Sir Archibald Sinclair's remarks about the Government's policy of tariffs, quotas and subsidies deserve careful study. He said:—

"The Government embarked on this economic policy, and in particular on the policy of protection, with four mutually inconsistent

objects in view. The first was to obtain revenue. The Chancellor has to confess that not even yet, with improving trade, have the duties levied under the Import Duties Act reached the level which he estimated they would reach in 1932. Together, the Import Duties Act duties and the Ottawa Duties yield just over £30,000,000, about the equivalent of the yield of 6d. on the Income Tax. If, instead of committing themselves at Ottawa to a policy of economic Imperialism, and torpedoing the World Economic Conference, the Government had devoted their energies to co-operating with other countries in restoring overseas trade, even to the level of 1929, which is no great criterion of prosperity, the yield of normal taxation on that trade would have far exceeded the yield of these protective duties. In short, protective duties destroy more revenue than they create.

"The second object was to protect home industries, a policy which has brought prosperity to Birmingham at the expense of Liverpool, Glasgow, the depressed areas and our great export and maritime industries.

"The third professed object of the tariff was to obtain a weapon with which to beat down foreign tariffs. A sufficient illustration of the futility of the tariff as a bargaining weapon is provided by the figures of our exports to the 16 countries with which we have concluded trade agreements as compared with those countries with which we have no agreements. In 1931, our exports to the 16 countries with which we have agreements totalled £109,000,000, and in 1935 they totalled £110,000,000, an increase of £1,000,000. In 1931 our exports to foreign countries with which we have no agreements totalled £110,000,000, and in 1935 £111,000,000. So there has been a total increase of £2,000,000 in the exports to foreign countries, £1,000,000 of which has gone to countries with which we have agreements and £1,000,000 to the countries with which we have no agreements. So much for the value of trading agreements and for the tariff as a bargaining weapon.

"The fourth object of the Government's policy was to divert trade from foreign countries to Empire countries, and in that object it has, of course, been successful. Nobody doubted, certainly no Free Trader, that you can divert trade by tariffs. But there is the economic cost, seen in exports reduced by a half, or nearly a half, as compared with 1929, the failure of the World Economic Conference, the continuance of unemployment and impoverishment. There is the political cost of the declaration of this country that it was abandoning the policy of keeping an open door in its Colonial Empire for the merchants and traders of all nations. In the words of Mr Bennett, who was the chairman of the Ottawa Conference, and ought to know what the Ottawa Agreements meant :

'In future nobody will be able to trade with the British Empire, except on payment of tribute.'

The cost of Ottawa, therefore, we are now paying in swollen Estimates for the Defence Services and in increased risk of war. Looking, therefore, at all those factors to which the Government attribute the expansion of the revenue—their economic policy, cheap money, the trade cycle, and balanced Budgets—we must be appalled at the precariousness of the foundations upon which they pile burdens of progressively swelling expenditure, increased taxation, and substantial additions to the debt."

Sir Archibald went on to say that we were now spending about a quarter of the national income on rates and taxes, compared with one-ninth before the war. It had been estimated that even after the Napoleonic wars the proportion was only one-sixth. Now it was proposed to make great additions to our expenditure for the purposes of defence—all of it unremunerative expenditure—and amid the confusion of voices in the Cabinet, it would have been natural and proper for the Chancellor of the Exchequer to give expression to the financial aspects of defence and security.

But instead of acting for the Treasury and the taxpayer Mr Chamberlain has led the way in demanding an expansion of armaments. He said, for example, in a speech at Kelso on September 21st, 1935 :—"We have been greatly handicapped by the fact, the knowledge of which is widespread on the Continent, that our defence forces have fallen to a dangerously low level." He now lays down a programme of armaments expenditure which not only involves the present increases of taxation, but also provides for a series of unbalanced Budgets in the future.

CONSCRIPTION OF LIFE AND WEALTH

It is pretty clear that the danger of another military alliance with France has created a suspicion that the Territorial Force (originally and properly intended for home defence, like the Militia from which it sprung) will again be employed on the Continent for the defence of other countries. That suspicion was deepened by the

alacrity with which His Majesty's Government accepted the French proposal for military conversations between French, British and Belgian generals after the German Army reoccupied the Rhineland. One cannot wonder that this prospect of another almost wholesale massacre has deterred young men, who have married or want to marry, from joining the Territorial Force. As a result there have been speeches by the Secretary of War, the ex-Secretary of War and various generals, as well as articles in the London press, hinting that young men had better join, if conscription is to be avoided or postponed. There have also been debates in the House of Commons in which Mr Churchill has pressed for the re-creation of the Ministry of Munitions and for arrangements with the Trade Union leaders for the purpose of directing the supply of labour into war channels and diverting it from peaceful industry. There is the old talk of "dilution." These speeches have stirred up some of the more independent Members of the Labour Party, who do not like the bellicose policy of Major Attlee. They have asked the pro-conscriptionist Tories whether they will apply conscription to wealth as well as to life, to capital as well as to labour. Lord Winterton replied in the affirmative (see Hansard, May 21, 1936), declaring that the two should be introduced simultaneously. There is very little doubt that, if a warlike foreign policy, accompanied by huge preparations of the kind now under way, should end (as it did before) in Great Britain being engaged again in a war, with France and Russia as its allies, there will be from the very commencement a confiscation of private property on an unprecedented scale. The money will be taken from the rich instead of being loaned by them to the Government, and England will gradually be reduced to the bankrupt conditions of Communist Russia, Nazi Germany or Fascist Italy.

It is high time, in the words of Dean Inge, that our people applied themselves seriously to the financial, political and moral problems raised by the Budget; and

if, as he said, they are unwilling to adopt a Christian foreign policy, let them at least adopt a policy of common sense which measures the risks, limits the commitments and avoids entanglement in the quarrels of other nations.

THE GROWTH OF EXPENDITURE

In 1913-14 the total National Expenditure was under £200,000,000, despite the fact that the Social Services had been brought to what was then regarded as a high stage of development, and the expenditure on armaments owing to the German menace, stood at a level without precedent in peace times. During the War, expenditure reached nearly £3,000 millions a year; then came the post-war Budgets which reduced expenditure to £790 millions in 1924-25—or £727 millions on the new basis of accounts, excluding the so-called "self-balancing" items, introduced by Mr Churchill in 1928. The subsequent rise of expenditure is shown in the following table, of which the first column is reproduced from the official "Financial Statement" for 1936, while the second column gives the total Exchequer issues, including expenditure on the Post Office and the Road Fund:—

			Ordinary Expenditure (£ millions)	Total (inc. self-balancing) (£ millions)
1913-14	..	..	169.5	197.5
1924-25	..	..	727.3	790.7
1925-26	..	..	751.4	820.6
1926-27	..	..	758.2	833.5
1927-28	..	..	752.5	828.5
1928-29	..	..	741.6	818.0
1929-30	..	..	749.6	829.5
1930-31	..	..	796.0	881.0
1931-32	..	..	772.0	851.1
1932-33	..	..	777.4	859.3
1933-34	..	..	692.8	772.2
1934-35	..	..	708.9	797.0
1935-36	..	..	750.0	841.8
1936-37 (est.)	..	..	797.9	893.7

Two details may be observed in connection with these figures. In the first place, when Mr Churchill "reformed" the national accounts in 1928, he excluded not only the Post Office and Road Fund from the "Ordinary" expenditure, but also certain minor self-balancing items (*e.g.* sale of fee stamps, teachers' contributions to pensions, etc.) then amounting to about £10,000,000 a year. In the first column, compiled by the Treasury, the figures have been adjusted accordingly to make them comparable with later years; and these minor items have also been excluded throughout in the second column. Secondly when the National Government balanced the Budget at the end of 1931, it was decided that there should be no further borrowing for unemployment payments; and to make the figures strictly comparable, the amounts borrowed for that purpose in the previous years should be taken into account:—

Borrowing by Unemployment Fund
(£ millions)

1925-26	..	..	..	..	0.1
1926-27	..	..	..	..	17.4
1927-28	..	..	..	..	—
1928-29	..	..	..	..	11.4
1929-30	..	..	..	..	3.0
1930-31	..	..	..	..	36.4
1931-32	..	..	..	..	39.6

One of the largest additions to the national expenditure in the series of Mr Churchill's Budgets was caused by the Derating Scheme, which costs the Exchequer over £30,000,000 a year. This new charge was defended on the ground that it was merely a transfer of expenditure, and that what the taxpayer lost the ratepayer would gain. The Public Economy League was always very sceptical of this argument, and the actual course of events is shown by the following table, which gives the amounts collected by the local Authorities in rates in recent years:

Amounts Paid in Rates

				£
1913-14	..	..	..	78,971,000
1924-25	..	..	..	160,036,000
1925-26	..	..	..	167,188,000
1926-27	..	..	..	179,487,000
1927-28	..	..	..	188,380,000
1928-29	..	..	..	188,389,000
1929-30	..	..	..	175,728,000
1930-31	..	..	..	168,250,000
1931-32	..	..	..	165,168,000
1932-33	..	..	..	163,678,000
1933-34	..	..	..	167,007,000
1934-35	..	..	..	171,874,000
1935-36	..	..	..	182,711,000

Thus there was a considerable decrease in expenditure from rates after the De-rating Scheme was introduced, though the decrease was never equal to the amount received from the Exchequer; but new ways were soon found for spending money, and in 1933 the amount collected in rates again began to rise, and in 1935-36 the total was within about £5½ millions of the peak figure of 1928-29.

In 1935-36, the Government spent £842 millions, the rates amounted to £182 millions, and the local authorities also spent well over £100 millions raised from loans—a total public expenditure of over £1,125 millions. The comparative figure for 1913-14 was £297 millions. The consequent taxation is so burdensome that it constitutes a heavy drain on industry and a check on national saving.

THE "DEFENCE" PROGRAMME

A "Statement relating to Defence" was issued as a White Paper on March 3rd, 1936 (Cmd. 5107, price threepence). This document refers to the "risks for peace" taken by successive British Governments, and says that "we have really no alternative in the present state of the world but to review our defences and to

provide the necessary means both of safeguarding ourselves and of playing our part in the enforcement by common action of international obligations." But the White Paper also dwells on the recent increases of armaments in numerous other countries. There are plenty of armaments in the world for enforcing common action—far too many indeed. The White Paper incidentally makes the following admission:—"It is true that a general raising of levels all round is no guarantee of peace." A masterly understatement. Competition in armaments, like competition in tariffs, is more likely to provoke war than to guarantee peace.

The most remarkable feature of the White Paper was that it neither indicated the final aims of the Government in regard to the strengths of the Defence Forces, nor contained any estimate of the proposed cost. The main proposals were as follows:—

NAVY. Two capital ships are to be laid down early in 1937. The modernisation of certain existing battleships will be continued. It is intended to increase the total number of cruisers to seventy, of which five will be included in the 1936 programme. A steady replacement programme of destroyers and submarines is contemplated. A new aircraft carrier will be laid down, and there will be a considerable expansion of the Fleet Air Arm.

ARMY. Four infantry battalions are to be added to the Army. Plans have been worked out for organising existing formations most effectively, and for equipping them with the most modern armament and material, together with adequate reserves of ammunition and stores.

AIR FORCE. "The programme of the Royal Air Force approved by the House of Commons last year was designed to bring up the strength of the Force at home to a total of 123 squadrons with approximately 1,500 first-line aircraft. That programme is proceeding according to plan, but new developments in design will render it possible to make great additions to the striking power of the Force. . . . Including four new auxiliary squadrons to be formed for co-operation with the Territorial Army, the new programme will increase the first-line strength of the Royal Air Force in this country, bringing up the total to approximately 1,750 aircraft, exclusive of the Fleet Air Arm. . . . The augmentation of offensive and defensive power which will result from the revised plans is greatly in excess of the numerical increase just mentioned."

As has been said, the Government is asking for a blank cheque for re-armament. In regard to expenditure the White Paper merely says:—

"From what has already been said as to the necessary flexibility of this programme, and in view of the uncertainty which must exist as to the rate of progress possible over so large a field, it will be realised that any attempt to estimate the total cost of the measures described would be premature at this stage. The original estimates for the coming year, which will shortly be before the House, will themselves require to be supplemented by provision for further defence measures referred to in this Paper; those for the following years must necessarily be larger."

Commenting upon this White Paper, Lord Snowden said in an interview:—

"There is nothing in our international commitments or in our imperial needs to justify it. The taxpayer can look forward to an intolerable increase of taxation—to be wasted on dangerous extravagance." (*News-Chronicle*, 4th March, 1936).

A fortnight later, the House of Commons debated the Navy Estimates, amounting to £69,930,000, an increase of £10,000,000 on the estimates for the previous year—and a further £10,000,000 was added by a Supplementary Estimate in May. Mr A. V. Alexander, who speaks with the authority of a former First Lord of the Admiralty, pointed out during the debate that we had the largest and most efficient fleet in the world, and he asked the Government:—

"Against whom are you arming? If you are really working to the policy of pooled security and a collective peace system through the League, there is no case for this wide expansion of naval expenditure which is proposed at the present time." (House of Commons, 16th March, 1936).

On the same day, Sir Archibald Sinclair told the House that after studying the annual Fleet Returns he found that our superiority over the fleets of other European naval Powers, even after so many years of what was called "unilateral disarmament," was at least as great as it was before the War.

In the Budget Statement, the Chancellor added little to the information given in the White Paper. He still

refrained from giving any estimate of the total cost of the Government's programme, and made no allusion to the figure of £300,000,000, which has been frequently mentioned in the newspapers. In regard to meeting the cost, he said that the circumstances made it "inequitable that the whole cost of this programme which has got to be carried through in a very short time should fall upon the revenue." Also it was neither just "nor in accordance with the sound principles of finance" that the whole burden should be left to posterity."

"Unless," said Mr Chamberlain, "it is possible to come to some agreement upon a general scheme of disarmament, the cost of defence is going to rise swiftly during the next few years to a peak, and after that it will begin to descend, but the important point to bear in mind is that it will not descend to the old level. . . . I conclude that in future years a part of this emergency expenditure, the amount of which must be determined from time to time in the light of the considerations I have put before the Committee, may properly be met out of loans. If in the meantime we have shown our readiness to bear our proper share of an exceptional burden by utilizing for that purpose our expanding revenue, and perhaps by submitting to some fresh sacrifices, then I am positive we will neither suffer loss of credit in the future nor incur the reproaches of our successors hereafter." (House of Commons, 21st April, 1936.)

THE COST OF ARMAMENTS

Mr Chamberlain's suggestion that the re-armament programme is "a legacy left from the past which the past in its time was either unwilling or unable to bear," and the frequently heard plea that "unilateral disarmament" has brought our forces to a dangerously low level, find no justification in the figures of expenditure in recent years.

		Navy £ millions	Army £ millions	Air Force £ millions	Total £ millions
1913-14	..	48.8	28.3	—	77.1
1930-31	..	52.6	40.2	17.8	110.6
1931-32	..	51.1	38.5	17.7	107.3
1932-33	..	50.0	35.9	17.1	103.0
1933-34	..	53.5	37.6	16.8	107.9
1934-35	..	56.6	39.7	17.6	113.9
1935-36	..	64.8	44.6	27.5	136.9

It will be seen that even in the six years since 1930—a period of trade depression and of great financial stringency—our Government has spent no less than £679 millions on armaments. This is an average of £113 millions a year, compared with £77 millions in 1913-14 when the expenditure was admittedly enormous, and was only excused by the imminent danger of war.

The estimates now presented for 1936-37, compared with the Budget estimates for 1935-36, are as follows:—

		Navy £ millions	Army £ millions	Air Force £ millions	Total £ millions
1935-36	..	60.0	43.5	20.7	124.2
1936-37	...	69.9	49.3	39.0	178.2

The total for 1936-37 includes £20,000,000 as a margin for Supplementary Estimates. Of this, £10,000,000 has already been allotted to the Navy in a Supplementary Estimate introduced in May. The total Navy Estimates thus reach £80,000,000—a higher figure than our total armaments expenditure in 1913-14.

The Defence Estimates as a whole show an increase of £54 millions compared with those of the previous year. This increase alone is equal to two-thirds of our total Defence expenditure on the eve of the Great War. The figure of £178 millions is of course entirely unprecedented in peace times, and is as much as the total National Expenditure in 1911-12. And we have been told that the figure is to go higher yet, so high that it will unbalance the Budget.

What is the reason for this enormous increase? The reasons so far advanced have been vague and unconvincing. Sometimes, according to the mood or temperament of the speaker, we are told that it is to enable us to carry out a policy of collective sanctions, sometimes because the policy of collective security has failed; or again, as Mr Baldwin recently stated, it is because the small nations have failed to take steps for defence;

or, as argued by the White Paper, it may be because so many nations have greatly increased their defence. Any reason is good enough for those who believe in great armaments and have consistently derided and impeded all efforts at international disarmament and at substituting the reign of law for that of force; and one suspects that Mr Churchill's often repeated allegations about the extent of German rearmament have much to do with the panic action that the Government is taking.

MR CHURCHILL ON GERMANY

The secrecy preserved by the German Government concerning its armament expenditure gave an opportunity for working up a first-class scare, and Mr Winston Churchill, who has long gloried in great armies and navies, has taken full advantage of it. On several occasions, he has produced a number of statistics and estimates of Germany's income, expenditure, etc., none of which bear directly on the subject, but which in the mass enable him to persuade himself and half convince others that in Germany "£800,000,000 was spent on warlike preparations in 1935 alone."

Probably there are few who really believe this, but Mr Churchill has a forceful personality, is one of the finest orators in Parliament, and declares that he has special sources of information, and therefore an uneasy feeling has spread that even if his deductions are exaggerated, still there must be a good deal in them. Few have taken the trouble to analyse Mr Churchill's figures. They have however, been closely examined by Mr Francis W. Hirst, the Hon. Secretary of the Public Economy League.

"Mr Churchill," writes Mr Hirst, "arrives somehow at a total of nearly twenty thousand million reichmarks for the expenditure on German rearmament since Hitler came into power, and professes to believe that more than half was spent last year. I will only observe first, that it is ridiculous to convert marks into pounds at

the official rate of exchange, which, as everyone knows, does not represent the internal value of the mark. The pegged exchange value of the mark has nothing to do with the internal value or purchasing power in Germany of the paper mark, and this of course is what counts when the Government is paying wages or buying goods for rearmament. Travellers in Germany have long been able to get from 21 to 24 marks to the pound, and on this head alone Mr Churchill's figures should be cut down by nearly half. An expenditure of four hundred millions is a good deal less alarming than an expenditure of eight hundred millions; and if of this smaller sum a hundred millions has been spent on roads, that brings down the expenditure of Germany on rearmament to three hundred millions in 1935. I wonder how much has gone to the support of the secret police and to the various costly extravagances of the Nazi Party which Dr. Schacht is now endeavouring to curtail.

"It seems to me also rather significant that the Government, while acting on Mr Churchill's panic figures, has not adopted them or answered any questions on the subject. My own belief is that the Nazi Government has been over-spending on armaments and many other things, partly for the purpose of reducing unemployment and creating an appearance of fictitious prosperity, and that it has thereby strained the finances of Germany almost to breaking point and weakened the real strength of the nation. If so, we need not assume that Hitler's professions of a desire for peace and disarmament are altogether insincere and hypocritical." (*Contemporary Review*, June, 1936).

It must be remembered that until recently Germany was almost totally disarmed, whereas this country possesses the greatest Navy in the world and has spent over £1,250 millions on armaments in the last ten years.

SUBSIDIES TO INDUSTRY

Another branch of expenditure, which has greatly increased under the National Coalition Government, is that of subsidies to industry and agriculture. The old subsidies to housing (which now amount to £16,000,000 a year) and to some minor industries continue; and in addition new subsidies have been given to agriculture, shipping, etc. The following table shows the amounts paid in 1934-35, or the last calculable twelve-monthly period:—

COST OF STATE SUBSIDIES

		£
Wheat payments	6,813,830	
Beet Sugar subsidy	4,422,672	
Beef subsidy	3,674,000	
Milk Act	1,800,000	
Bacon Marketing Scheme ..	144,000*	
Scottish Marketing Boards ..	17,000*	
Herring Industry	617,000	
Civil Aviation	513,000	
Minor Industries	66,000	
Cunard-White Star	2,011,000*	
Tramp Shipping Subsidy ..	2,000,000†	

The cost to the nation of the marketing schemes is of course far greater than the direct cost of the subsidies. Formerly bacon was the food of the poor, but it has now doubled in price and the unemployed can hardly afford to buy it at all. The milk and potato schemes inflict arbitrary restrictions on producers and retailers, and deprive consumers of plentiful supplies and low prices. This view was expressed at a protest meeting in Edinburgh by Mr F. A. Macquisten, K.C., a Conservative Member of Parliament:—

“Marketing Boards are sheer unmitigated Communism of a particularly wicked and virulent type.” He described the Milk Board as the most extraordinary body since the time of Charles II. It was its own Court, it was its own prosecutor, and its own Judge, and it put the fines it extorted into its own pockets. (*Scotsman*, 19th September, 1935).

The Beet Sugar Subsidy, which is the most uneconomic and extravagant of all, has now been made permanent. This scheme, which has cost £6,000,000 a year, including the loss of Customs revenue from sugar no longer imported, was condemned by the Government's own Sugar Industry Inquiry Committee (the Greene Report), who pointed out that “the price that the factories could afford to pay for the beet would only just cover the cost of transporting it if there were no subsidy. The same acreage of beet could be secured as cheaply by paying farmers to grow sugar beet and keep it on the farm for

* Repayable. † Amount voted.

use as they thought fit.” Now, however, by the terms of the Sugar Industry Reorganisation Bill, the factories are being amalgamated into one corporation, with a permanent monopoly; and if the scheme were to be brought to an end, the taxpayers would have to foot a heavy bill for compensation.

There is not space here to multiply instances of profligate expenditure in all directions—many examples will be found in previous pamphlets issued by the Public Economy League. We will, however, quote an interesting statement recently made by Sir Francis Acland, Bt., M.P., which shows that in military and civil expenditure alike costs are rising at an excessive and alarming rate:—

“I have worked out the cost of the Defence Services, reckoned per man on Vote A, in the last year before the War, and now. The figure of £77,000,000 which we spent before the War, represented a cost of £235 per man, and it provided for the contemptible little Army which was extraordinarily efficient, and for the Navy, which kept the seas throughout the War. Looking ahead, and taking a figure at which we shall get very soon—assuming that after the threatened peak the expenditure will run down to some sort of a level basis—£185,000,000, which is a moderate figure because we are now spending £178,000,000 this year, and assuming that there is an increase of 10,000 in the strength of our armed forces, which are now 20,000 below pre-war level, we get a cost per man of £583, compared with £235 before the War, or nearly 150 per cent. increase.

“There is, of course, the explanation of higher pay, mechanisation, and so on, but I think the figure is a remarkable one. I do not wish simply to concentrate on armaments, for there is another figure which I have worked out on the civil side and which in a way is even more remarkable. In the last pre-war year, a child in an elementary school cost, if we add national and local expenditure together, £4 15s., but this year, according to the best estimates I can get, the cost will be probably £14 15s., an increase of nearly 210 per cent. compared with the pre-war figure. In view of figures of that kind, which no doubt could be multiplied in many departments of expenditure, it is no wonder that Customs and Excise have had to go up in the same period four and a half times, and that Inland Revenue has had to go up nearly five times what it was.” (House of Commons, 23rd April, 1936).

In the light of these figures sensible people will assuredly demand a new and severe scrutiny of public expenditure and an elimination of all waste.

THE NATIONAL DEBT

After the Great War had raised the National Debt from about 650 to about 7,500 millions sterling, sober-minded statesmen of all parties agreed that a large and effective Sinking Fund should be established for its reduction. It was left for Mr Neville Chamberlain, as Finance Minister to the Coalition, to abandon the Sinking Fund and devote the money to more popular purposes, such as the raising of salaries and of subsidies to favoured interests. It is doubtful whether any peacetime Chancellor of the Exchequer has ever acted more recklessly in regard to the National Debt than has Mr Chamberlain. After balancing his earlier Budgets by suspending the Sinking Fund, he has now in 1936 swept aside all his previous promises to restore it and complacently announces that the projected increase of armaments expenditure is to be partly met in the future by further borrowings. Surely some supporters of the National Government—which was originally formed for the purpose of balancing the Budget—must have felt a twinge of uneasiness when Mr Chamberlain said in the House of Commons :—

“I felt that only if we submitted to some of the sacrifices now could we come with a clear conscience in the future, and borrow, and start with a series of unbalanced budgets.”

A new series of unbalanced Budgets! And for what is probably the least justifiable of reasons, an increase of unproductive expenditure on armaments over and above what the nation can afford out of revenue.

Before the War the National Debt stood at less than £650 millions; at the end of the War, it was about £7,435 millions. During the next thirteen years, the amounts repaid were approximately equalled by the increases caused by Budget deficits and by Conversion

schemes, which reduced the current Debt charges at the expense of adding to the outstanding capital; and in 1932, when Mr Chamberlain became Chancellor, the figure was £7,434 millions. By 1936 the Debt had risen to nearly £7,800 millions, due mainly to the establishment of the Exchange Equalisation Fund of £350 millions. The precise figures are as follows :—

TOTAL DEADWEIGHT DEBT

March 31st	£ millions
1914	650
1919	7,435
1932	7,434
1933	7,644
1934	7,822
1935	7,800
1936	7,796

On the usual calculation of ten million families in the country, this means that the average household is responsible for £780 of the country's debt. It also means that the State has piled up a debt equal to ten years' revenue. One of the consequences is that, despite suspension of Sinking Fund and of interest on the American Debt, despite the abnormally low rates of interest on floating debt, and despite large conversions of the funded debt, the present annual debt charge far exceeds the total national expenditure of pre-war years.

Mr Chamberlain's neglect of sound finance in this connection contrasts with his professed intentions at the beginning of his Chancellorship. In 1933, following a deficit and the introduction of the system of Protection, he entirely suspended the Sinking Fund; but he said in his Budget speech :—

“No Finance Minister, as far as I know, has ever deliberately unbalanced his Budget when he possessed the means of balancing it. . . . If we were to reverse our policy, just at the very moment when other Governments are striving to follow our example and to balance their Budgets. . . . we would stultify ourselves in the eyes of the world and forfeit in a moment the respect with which we are regarded to-day.” (April 25th, 1933).

In 1934, though Mr Chamberlain found himself with

a prospective surplus, he did not restore the Sinking Fund, as he preferred the more popular course of reducing taxation and restoring the "cuts"; but he gave a serious warning that provision for the Debt ought to be made in the following year. In 1935, he followed a similar course, again (slightly) reducing taxation; and the provision for the Debt was postponed until the next year. He also referred to the recovery in this country in contrast with other countries and said:—

"It is not without significance that this forward movement has followed upon a succession of balanced Budgets . . . nowhere else can you find a parallel to the results which have been achieved here." (April 15th, 1935).

But now, in 1936, Mr Chamberlain has coolly abandoned financial orthodoxy. He is ready to burn in practice the image which he adored in theory. Without a single effort to check the growth of national extravagance he is ready next year to add to the National Debt by an armaments loan, to undermine the public credit "with a clear conscience" by starting a new "series of unbalanced Budgets." Well might Mr Churchill (whose Budgets were once a byword for unsound expedients and profligate expenditure) declare:—

"We have shaken ourselves entirely free from the whole Gladstonian structure and tradition of finance—for good or for ill, but no one would deny that we have done it. . . . I was the last orthodox Chancellor of the Victorian epoch." (April 23rd, 1936).

It looks as if the National Debt will soon reach the new high record of £8,000 millions. Mr Chamberlain has already told taxpayers that there is no prospect of any further relief. But their sacrifices will be inadequate. We are to spend more than the revenue. That means a decline of the national credit, and a fall in gilt-edged securities. He himself anticipates that one of his "pillars of prosperity"—cheap money—will before long disappear. Then, in the disastrous event of our being involved in a war, we shall be left without that financial reserve which has always been our unique source of strength in former struggles. We may well

recall to-day Disraeli's protest against "extravagant military establishments" in 1857, and his "opinion that with due economy and with able administration, the more you reduce the burdens of the people the greater will be your strength when the hour of danger comes."

Moreover, if Budgets can be unbalanced and millions borrowed for armaments, how can a profligate Chancellor withstand the Socialist demands for increased expenditure on pensions, wages, unemployment, public works, subsidies, etc., etc.? So long as he kept his Budget balanced, he could have met a demand for a few more millions for the unemployed with the answer that he must wait until an expanding revenue makes it possible to provide the money; or if clamorous industries cried out for even greater subsidies, he could reply that to grant them is impossible without unbalancing the Budget. But in future, these retorts will no longer be open to Mr Chamberlain. If he is to lead a campaign for greater armaments at all costs—a strange reversal of the traditional role of the Chancellor of the Exchequer—he will be ashamed to mention the word "economy" at all. And the Government that pursues such a policy as this will land the country into ever-increasing extravagance, and bring upon itself greater odium than did the Socialist Government in 1931. Will Mr Chamberlain's supporters revolt before it is too late, and rouse themselves from the mad delusion that the nation's resources are limitless?

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